

Note: Instructions for this worksheet are not included on this page.

State of Michigan
Evaluation of the Internal Control Structure (ICS)
In Effect During the Two-year Period Ended September 30, _____

- Worksheet for Evaluating the *Control Environment* Component of the ICS -

Description of Departmental Activity: _____

Evaluation Criteria:	Description/Comments on Policies/Procedures/Practices (Conclusions regarding control system strengths and weaknesses):
1. Integrity and Ethical Values	
Management must convey the message that integrity and ethical values cannot be compromised; employees must receive and understand that message. Management must continually demonstrate, via words and actions, a commitment to high ethical standards. ♦ Existence and implementation of codes of conduct and other policies regarding acceptable business practice, conflicts of interest, or expected standards of ethical and moral behavior. Consider whether: <ul style="list-style-type: none">Codes are comprehensive, addressing conflicts of interest, illegal or other improper payments, supplemental employment, accepting gifts from vendors, etc.All employees periodically acknowledge understanding of codes of conduct.Employees understand what behavior is acceptable or unacceptable, and know what to do if they encounter improper behavior.If a written code of conduct does not exist, management culture emphasizes the importance of integrity and ethical behavior. This may be communicated orally in staff meetings, in one-on-one interface, or by example when dealing with day-to-day activities.	
♦ Establishment of “tone at the top” – including explicit moral guidance about what is right and wrong -- and extent of its communication throughout the organization. Consider whether: <ul style="list-style-type: none">Commitment to integrity and ethics is communicated effectively throughout the organization, both in words and deeds.Employees are given ongoing feedback regarding appropriate actions and behaviors.Management appropriately deals with signs that problems exist, especially when the cost of identifying problems and dealing with the issues could be large.	
♦ Dealings with employees, vendors/contractors, customers, citizens, other departments/agencies, auditors, etc. (e.g., whether program area management conducts business on a high ethical plane, and insists that others do so, or pays little attention to ethical issues). Consider	

Evaluation Criteria:	Description/Comments on Policies/Procedures/Practices (Conclusions regarding control system strengths and weaknesses):
<p>whether:</p> <ul style="list-style-type: none">• Everyday dealings with customers, vendors, contractors, employees, other parties are based on honesty and fairness (e.g., customer’s overpayment or a vendor/contractor under-billing is not ignored; no efforts are made to find a way to reject an employee’s legitimate claim for benefits; operational reports are complete, accurate and not misleading, etc.).	
<p>♦ Appropriateness of remedial action taken in response to departures from approved policies and procedures or violations of the code of conduct. Extent to which remedial action is communicated or otherwise becomes known throughout the department. Consider whether:</p> <ul style="list-style-type: none">• Management responds to inappropriate instances of behavior.• Corrective action is taken as a result of departures from approved policies/procedures to include reinforcement/retraining in proper policies/procedures.	
<p>♦ Management’s attitude toward intervention or overriding established controls. Consider whether:</p> <ul style="list-style-type: none">• Management has provided guidance on situations and frequency with which intervention may be needed.• Management intervention is documented and explained appropriately.• Manager override of controls is explicitly prohibited.• Deviations from established policies are investigated and documented.	
<p>♦ Pressure to meet unrealistic performance targets--particularly for short-term results—and extent to which compensation is based on achieving those performance targets. Consider whether:</p> <ul style="list-style-type: none">• Conditions such as financial or other incentives that can unnecessarily and unfairly test people’s adherence to ethical values.• Compensation and promotions are based solely on achievement of short-term performance targets.• Controls are in place to reduce temptations that might otherwise exist.	
<p>1. Integrity and Ethical Values – Overall Conclusion/Control System Strengths and Weaknesses</p>	

Evaluation Criteria:	Description/Comments on Policies/Procedures/Practices (Conclusions regarding control system strengths and weaknesses):
2. Commitment to Competence	
<p>Management must specify the level of competence needed for particular jobs, and translate desired levels of competence into requisite knowledge and skills.</p> <ul style="list-style-type: none"> ◆ Formal or informal job descriptions or other means of defining tasks that comprise particular jobs. Consider whether: <ul style="list-style-type: none"> • Management analyzes, on a formal or informal basis, tasks comprising particular jobs, considering such factors as extent to which individuals must exercise judgment and the extent of related supervision. 	
<ul style="list-style-type: none"> ◆ Analyses of knowledge and skills needed to perform jobs adequately. Consider whether: <ul style="list-style-type: none"> • Management has defined, to an adequate extent, knowledge and skills needed to perform particular jobs. • Evidence exists indicating that employees appear to have requisite knowledge and skills. 	
2. Commitment to Competence – Overall Conclusion/Control System Strengths and Weaknesses	
3. Management’s Philosophy and Operating Style	
<p>The philosophy and operating style of management normally have a pervasive effect on a department. These are intangibles, but one can look for positive or negative signs.</p> <ul style="list-style-type: none"> ◆ Nature of business risks accepted, (e.g., whether management often enters into particularly high-risk ventures or is extremely conservative in accepting risks.) Consider whether: <ul style="list-style-type: none"> • Program area management moves carefully, proceeding only after analyzing tasks and potential benefits of a venture, with allowance of some risk taking. 	
<ul style="list-style-type: none"> ◆ Personnel turnover in key functions within the program area, (e.g., operating, accounting, data processing, internal audit.) Consider whether: <ul style="list-style-type: none"> • There has been excessive turnover of management or supervisory personnel. • Key personnel have quit unexpectedly or on short notice. • There is a pattern to turnover (e.g., inability to retain key financial/accounting, information system, or internal audit management); may be an indicator of the emphasis management places on control. 	

Evaluation Criteria:	Description/Comments on Policies/Procedures/Practices (Conclusions regarding control system strengths and weaknesses):
<ul style="list-style-type: none">◆ Management’s attitude toward data processing and accounting functions; concerns about reliability of financial reporting and safeguarding assets. Consider whether:<ul style="list-style-type: none">• The department’s centralized accounting function is viewed as a necessary group and as a vehicle for exercising financial control over the activities of various programs.• Accounting principles selected for use in financial statements are Generally Accepted Accounting Principles, and deviations from GAAP are justified and approved by OFM.• For decentralized accounting activities, program area management sufficiently monitor/control transaction processing and financial reporting of operating results.• Program area accounting personnel also have responsibility to central finance and accounting offices.• Valuable assets, including computer systems and networks, are protected from unauthorized access or use.	
<ul style="list-style-type: none">◆ Frequency of interaction between senior management and operating management (division directors, etc.), particularly when operating from geographically removed locations. Consider whether:<ul style="list-style-type: none">• Senior managers frequently visit divisional operations.• Group or divisional management meetings are held frequently.	
<ul style="list-style-type: none">◆ Attitudes and actions toward financial reporting, including disputes over application of accounting treatments (e.g., selection of conservative vs. liberal accounting policies; whether accounting principles have been misapplied, important financial information not disclosed, records manipulated or falsified). Consider whether:<ul style="list-style-type: none">• Program area management identifies both short and long term reported results.• Personnel submit appropriate reports to meet financial or performance targets.• Managers take appropriate corrective action when inappropriate actions are recognized.• Estimates are based on valid, reasonable and documented assumptions.	
3. Management’s Philosophy and Operating Style - Overall Conclusion/Control System Strengths and Weaknesses	
4. Organizational Structure	
<p>Organizational structure should not be so simple that it cannot adequately monitor the program area’s activities nor so complex that it inhibits necessary flow of information. Program area management should fully understand their control responsibilities and possess requisite experience and levels of knowledge commensurate with their positions.</p> <ul style="list-style-type: none">◆ Appropriateness of the program area’s organizational structure, and its ability to provide the necessary information flow to manage its activities. Consider whether:<ul style="list-style-type: none">• The organizational structure is appropriately centralized or decentralized, given the	

Evaluation Criteria:	Description/Comments on Policies/Procedures/Practices (Conclusions regarding control system strengths and weaknesses):
nature of the program area’s operations. <ul style="list-style-type: none">• Structure facilitates the flow of information upstream, downstream, and across all business activities.	
◆ Adequate definition of key managers’ responsibilities, and their understanding of these responsibilities. Consider whether: <ul style="list-style-type: none">• Responsibilities and expectations for program area’s business activities are communicated clearly to managers in charge of those activities.	
◆ Adequacy of knowledge and experience of key managers in light of responsibilities. Consider whether: <ul style="list-style-type: none">• The program area managers in charge have required knowledge, experience and training to perform their duties.	
◆ Appropriateness of reporting relationships. Consider whether: <ul style="list-style-type: none">• Established reporting relationships—formal or informal, direct or matrix--are effective, and provide program area managers information appropriate to their responsibilities and authority.• The management of program areas has access to communication channels to the department’s executive management (Director, Deputy Directors, CIO, CFO, etc.).	
◆ Extent to which modifications to the program area’s organizational structure are made in light of changing conditions. Consider whether: <ul style="list-style-type: none">• Management periodically evaluates the program area’s organizational structure in light of changes in services/activities, automation, etc.	
◆ Sufficient numbers of employees exist, particularly in management and supervisory capacities. Consider whether: <ul style="list-style-type: none">• Program area managers and supervisors have sufficient time to carry out their responsibilities effectively.• Managers/supervisors work excessive overtime, and are fulfilling the responsibilities of more than one employee.	
4. Organizational Structure - Overall Conclusion/Control System Strengths and Weaknesses	
5. Assignment of Authority and Responsibility	
The assignment of responsibility, delegation of authority and establishment of related policies provide a basis for accountability and control, and set forth individuals’ respective roles. <ul style="list-style-type: none">◆ Assignment of responsibility and delegation of authority to deal with organizational goals and objectives, operating functions and regulatory requirements, including responsibility for information systems and authorizations for changes. Consider whether:	

Evaluation Criteria:	Description/Comments on Policies/Procedures/Practices (Conclusions regarding control system strengths and weaknesses):
<ul style="list-style-type: none">• Authority and responsibility are assigned to employees throughout the program area.• Responsibility for decisions is related to assignment of authority and responsibility.• Proper information is considered in determining the level of authority and scope of responsibility assigned to an individual.	
<ul style="list-style-type: none">◆ Appropriateness of control-related standards and procedures, including employee job descriptions. Consider whether:<ul style="list-style-type: none">• Job descriptions exist for all positions.• They contain specific references to control-related responsibilities.	
<ul style="list-style-type: none">◆ Appropriate numbers of employees, particularly with respect to data processing and accounting functions, with requisite skill levels relative to the size of the program area and nature and complexity of activities and systems. Consider whether:<ul style="list-style-type: none">• The program area has an adequate workforce--in numbers and experience—to carry out its mission.	
<ul style="list-style-type: none">◆ Appropriateness of delegated authority in relation to assigned responsibilities. Consider whether:<ul style="list-style-type: none">• There is an appropriate balance between authority needed to “get the job done” and involvement of senior personnel when needed.• Employees at the “appropriate” level are empowered to correct problems or implement improvements; empowerment is accompanied by appropriate levels of competence and clear boundaries of authority.	
5. Assignment of Authority and Responsibility - Overall Conclusion/Control System Strengths and Weaknesses	
6. Human Resources Policies and Practices	
<p>Human Resource policies are central to recruiting and retaining competent people to enable the program area’s plans to be carried out and its goals achieved. (Note: Civil Service Rules and Regulations may cover many of the Human Resources aspects of the Control Environment evaluation. However, attention should be given to additional policies and procedures, which have been established by your department to address special circumstances exclusive to your department’s operations.)</p> <ul style="list-style-type: none">◆ Extent to which policies and procedures for hiring, training, promoting, and compensating employees are in place. Consider whether:<ul style="list-style-type: none">• Existing personnel policies/procedures result in recruiting or developing competent and trustworthy people necessary to support an effective internal control system.• Level of attention given by the program area to recruiting and training the most qualified people is appropriate.• Program area management communicates expectations about qualifications of those to be hired or participates directly in the hiring process.	

Evaluation Criteria:	Description/Comments on Policies/Procedures/Practices (Conclusions regarding control system strengths and weaknesses):
<ul style="list-style-type: none">• A fair and equitable system for compensating employees exists, based upon level of skill and ability.	
<ul style="list-style-type: none">◆ Extent to which employees are made aware of their responsibilities and expectations of them. Consider whether:<ul style="list-style-type: none">• New employees are made aware of their responsibilities and management’s expectations, and are given a written copy of job expectations.• Supervisory personnel meet periodically with employees to review job performance and suggestions for improvement. A formal performance review is completed at least annually.	
<ul style="list-style-type: none">◆ Appropriateness of remedial action taken in response to departures from approved policies and procedures. Consider whether:<ul style="list-style-type: none">• Management’s response to failures to carry out assigned responsibilities is appropriate.• Corrective action is taken as a result of non-adherence to established policies.• Employees understand that ineffective performance will result in remedial consequences.	
<ul style="list-style-type: none">◆ Extent to which personnel policies address adherence to appropriate ethical and moral standards. Consider whether:<ul style="list-style-type: none">• Integrity and ethical values are criteria in performance appraisals.	
<ul style="list-style-type: none">◆ Adequacy of employee candidate background checks, particularly with regard to prior actions or activities considered unacceptable by the department. Consider whether:<ul style="list-style-type: none">• Candidates with frequent job changes or gaps in employment history are subjected to particularly close scrutiny.• Policies are in place and followed for sensitive positions which require a criminal history check.	
<ul style="list-style-type: none">◆ Adequacy of employee retention and promotion criteria and information-gathering techniques (e.g., performance evaluations) and relation to code of conduct or other behavioral guidelines. Consider whether:<ul style="list-style-type: none">• Promotion and salary increase criteria are detailed clearly so individuals know what management expects prior to promotions or advancement.• Criteria reflect adherence to behavioral standards.	
6. Human Resources Policies and Practices - Overall Conclusion/Control System Strengths and Weaknesses	

I certify that this evaluation of *Control Environment* component of the internal control structure, for the activity defined as _____, in effect during the two-year period ended 9/30/04 has been conducted in a reasonable and prudent manner, and I concur with the conclusions documented above as a result of this evaluation.

Activity Level Manager Signature

Date